

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: May 29, 2008 (As amended May 27, 2008 by the Senate Finance Committee)

Bill Number: H.B. 4470

Author: Harrell, Leach, Cato, Hagood, Hamilton, et al

Committee Requesting Impact: Senate

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Section 12-6-3680 so as to allow a state income tax credit for the purchase, installation, or improvement of a fire sprinkler system; to amend Section 5-31-670, relating to municipal and special service district water systems, so as to limit charges for separate lines for fire sprinkler systems to actual costs; to amend Section 12-36-2120, as amended, relating to sales tax exemptions, so as to exempt fire sprinkler systems; to amend Section 12-37-220, as amended, relating to property tax exemptions, so as to allow an exemption from county taxes for five years for the first fifty thousand dollars of the cost of adding to and upgrades of fire sprinkler systems in manufacturing establishments in existence before July 1, 2008; to amend Section 12-37-930, as amended, relating to depreciation allowed in the valuation of manufacturing property for purposes of the property tax, so as to allow a twenty percent annual depreciation for the addition or upgrade of a fire sprinkler systems installed or upgraded in a manufacturing establishment in existence before July 1, 2008, and to allow this cost to be completely depreciated; and to amend Section 23-9-40, relating to the duties of the State Fire Marshal, so as to add authority relating to fire sprinkler systems.

REVENUE IMPACT ^{1/}

This bill is expected to have no impact on General Fund revenues in FY2008-09. This bill is expected to have no impact on local government revenues in FY2008-09.

Explanation of Amendment (May 27, 2008) – Senate Finance Committee

This amendment strikes all enacting words and inserts the language contained in S. 860. The following is a review of the sections of the bill related to revenues:

Section 1: Section 1 of this amendment adds Section 58-5-390 that stipulates that public and private utilities may not impose fees for the installation and maintenance of fire sprinkler systems that exceed the actual costs associated with the water line to the system. Based upon a recent survey of local water services conducted by the Municipal Association of South Carolina indicating that these water services have eliminated tap fees exceeding actual costs, the BEA estimates that this section will have no impact on local government revenues in FY2008-09.

Sections 2-4: Section 2 of this amendment adds Section 12-6-3622 allowing a credit against real property taxes levied by a local taxing entity equal to twenty-five percent of the direct expenses incurred by taxpayers who install fire sprinkler systems in commercial or residential structures when such installations are not required by law, regulation, or code. The local taxing entity must consent to the tax credit. The taxpayer may also claim a state income tax credit equal to the real property tax credit in any year the tax credit is permitted by the local taxing entity. Section 3 of this amendment amends Section 12-37-3130, relating to real property valuation, stipulating that fire sprinkler systems installed in commercial or residential structures when the installation is not required by law, regulation, or code is not an addition or improvement that triggers a change in the value of real property. Section 4 of this amendment adds fire sprinkler system equipment and its value installed in a commercial or residential structure when the installation is not required by law, regulation, or code as being exempt from property tax under Section 12-37-220(B) until a transfer of interest. The Office of the State Fire Marshal estimates that nearly one hundred percent of current fire sprinkler installations are required by law, regulation, or code. We expect this trend to continue in the absence of this section. As a result, we expect that these sections will have no impact on General Fund or local government revenues in FY2008-09.

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Explanation of Amendment (February 12, 2008) – House Ways & Means Committee

This amendment adds language clarifying that the eighty percent income tax credit is applicable to the costs of purchasing, installing, and retrofitting both commercial and residential fire sprinkler systems. Both commercial and residential fire sprinkler system installations were included in the original fiscal impact. Residential fire sprinkler system installations include apartment and condominium buildings, nursing homes, assisted living facilities, children's homes, hotels and motels, and university housing. There are no known fire sprinkler system installations in private, residential homes in South Carolina. This amendment is therefore expected to have no additional impact on General Fund revenues in FY2008-09. This amendment also strikes Section 4 and inserts new language that allows a county and municipal property tax exemption for additions/upgrades costing less than \$50,000 to fire sprinkler systems in structures in existence before July 1, 2008. Based upon data provided by the State Fire Marshal's office and the SC Fire Sprinkler Association, the BEA estimates that the county and municipal property tax exemption is expected to reduce county and municipal property tax revenues by \$42,587 in FY2008-09.

Explanation of Bill Filed January 15, 2008

The following is a review of sections of the bill related to revenues:

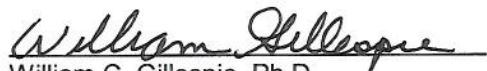
Section 1: This section would add Section 12-6-3680 allowing a state income tax credit equal to eighty percent of the costs of the purchase, installation, and retrofitting of fire sprinkler systems. Based on data provided by the State Fire Marshal's office, the BEA estimates that the income tax credit is expected to reduce General Fund income tax revenues by \$316,825 in FY2008-09.

Section 2: This section would amend Section 5-31-670 stipulating that compensation and charges in excess of actual costs of installing water taps supporting fire sprinkler systems are not to exceed the actual costs of installation. Based upon a survey of local water services indicating that local municipalities have eliminated tap fees, the BEA estimates that this stipulation is expected to have no impact on local government revenues in FY2008-09.

Section 3: This section would amend Section 12-6-2120 by adding a sales tax exemption on the purchase of fire sprinkler systems. Based upon data provided by the State Fire Marshal's office and the SC Fire Sprinkler Association, the BEA estimates that the sales tax exemption is expected to reduce state sales and use tax revenue by \$6,900,000 in FY2008-09. Of this total sales tax exemption, \$4,600,000 will be a reduction in General Fund revenues, \$1,150,000 will be a reduction in EIA fund revenues, and \$1,150,000 will be a reduction in Homestead Exemption fund revenues for homeowner relief.

Section 4: This section would amend Section 12-37-220(B) by adding a county property tax exemption for additions/upgrades costing less than \$50,000 to fire sprinkler systems in manufacturing establishments. Based upon data provided by the State Fire Marshal's office and the SC Fire Sprinkler Association, the BEA estimates that the county property tax exemption is expected to reduce county property tax revenues by \$2,158 in FY2008-09.

Section 5: This section would amend Section 12-37-930 by adding an annual allowance of twenty percent for manufacturers to depreciate the value of fire sprinkler systems installed or upgraded. Based upon data provided by the State Fire Marshal's office and the SC Fire Sprinkler Association, the BEA estimates that the annual allowance for depreciation is expected to reduce county property tax revenues by \$24,899 in FY2008-09.



William C. Gillespie, Ph.D.
Chief Economist

Analyst: Ball

This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.